

YOUR HOME LOAN ADVOCATE

REFINANCING YOUR HOME

A practical guide to deciding when refinancing makes sense - and when it doesn't.

THE ADVOCATE DIFFERENCE

A lower rate can be valuable. But the real question is whether refinancing improves your overall financial position.

TOM ENGLISH

Your Home Loan Advocate | NMLS #210394

A Lower Rate Doesn't Automatically Make a Refinance a Good Idea

That's probably not what you expect to hear from someone in the mortgage business. 😊

But refinancing isn't really about getting another mortgage.

“Will changing my mortgage put me in a better financial position?”

Sometimes the answer is absolutely yes.

Other times, after looking at the costs, how long you expect to own the home, your current loan and what you're trying to accomplish, the better answer may be to leave your mortgage exactly where it is.

My job isn't to talk you into refinancing. My job is to help you figure out whether you should.

— Tom English, Your Home Loan Advocate

1. Start With Why

Before I look at interest rates, I want to know why you're considering refinancing.

- Lower your monthly payment
- Reduce your interest rate
- Change or shorten your loan term
- Remove or reduce mortgage insurance
- Access equity
- Pay off higher-cost debt
- Finance improvements or another important expense
- Change from an adjustable to a fixed rate
- Restructure your finances before retirement

ADVOCATE TIP

Don't start with "What's today's rate?" Start with "What am I trying to accomplish?"

2. The Two Basic Types of Refinancing

Rate-and-Term Refinance

A rate-and-term refinance changes the structure of your existing mortgage without taking significant equity out as cash.

You might use one to:

- Lower your monthly payment
- Reduce your interest rate
- Change your loan term
- Remove or reduce mortgage insurance
- Move from an adjustable-rate mortgage to a fixed-rate mortgage
- Restructure the loan around your current financial goals

And we're not limited to simply replacing a 30-year mortgage with another 30-year mortgage.

I can structure a refinance for virtually any term that makes sense for you.

If you have 23 years remaining, for example, we can look at something close to 23 years rather than automatically starting over at 30.

THE GOAL

Build the loan around your financial plan - not force your financial plan around a standard loan term.

Cash-Out Refinance

A cash-out refinance replaces your existing mortgage with a larger loan and allows you to receive a portion of your home's equity in cash.

- Home improvements
- Paying off higher-cost debt
- Major expenses
- Education
- Building financial reserves
- Other financial goals

Cash-out refinancing can be a very useful financial tool, but you're converting some of the equity in your home back into debt.

ASK THE BETTER QUESTION

Not “How much cash can I take out?” but “What will using this equity accomplish, and does the overall strategy leave me in a better financial position?”

3. The Interest Rate Isn't the Most Important Number

That probably sounds strange coming from someone who does mortgages for a living.

Of course the interest rate matters. But it is only one part of the decision.

When I'm evaluating a refinance with you, I'm also looking at:

- Monthly payment
- Closing costs
- Remaining loan term
- Mortgage insurance
- Other debts
- Cash flow
- Equity
- How long you'll own the home
- Your overall financial goals

Sometimes a refinance makes sense because the interest rate drops substantially. But sometimes the real benefit is somewhere else.

For example, if we're able to restructure your mortgage and eliminate higher-cost monthly obligations at the same time, your mortgage payment itself might not fall dramatically - or could even increase somewhat - while your total monthly financial obligations decline significantly.

I'm less interested in whether I can show you a lower mortgage rate than whether I can improve your overall financial position.

REMEMBER

A rate is a number. The strategy is what matters.

4. Understand Your Break-Even Point

This is one of the simplest and most useful ways to evaluate certain refinances.

If the refinance costs \$5,000 and saves you \$250 per month:

$$\text{\$5,000} \div \text{\$250} = \text{20 months}$$

In very simple terms, it takes approximately 20 months of savings to recover the upfront cost.

If you expect to own the home for another ten years, that may be worth exploring. If you're planning to sell next year, probably not.

The actual analysis can be more involved because loan balances, interest, taxes and other factors may change, but the principle is important: how long will it take before the refinance actually benefits you?

5. Your Loan Term Should Fit Your Plan

One of the advantages I have when structuring a refinance is that we don't necessarily have to put you back into a standard 30-, 20- or 15-year box.

If you've already been paying your mortgage for several years, we can look at a term that more closely matches where you are today.

- Have 24 years left? We can look at approximately 24 years.
- Want the house paid off in 18? Let's look at 18.
- Want a longer term because improving monthly cash flow is the priority? We can evaluate that too.

“What loan term best accomplishes what I'm trying to do?”

Sometimes the goal is paying the home off sooner. Sometimes it's lowering the required monthly payment. Sometimes it's freeing up cash flow so you can redirect money toward retirement, investments, other debt or simply create more breathing room every month.

And sometimes the right answer is to keep the mortgage you already have.

ADVOCATE TIP

The loan term is another tool in the strategy. It shouldn't dictate the strategy.

6. Removing Mortgage Insurance

For some homeowners, mortgage insurance is part of the reason they're considering a refinance.

If your home has appreciated or you've paid down the loan significantly, you may now have enough equity that mortgage insurance is no longer necessary under a new loan structure.

But let's check the existing loan first. Depending on the type of mortgage and your circumstances, there may be a way to eliminate mortgage insurance without refinancing.

If there is, I'd rather you know about it. If refinancing is required - or provides other meaningful benefits at the same time - then we'll compare the options.

7. What About Taking Cash Out?

Your home may represent one of your largest financial assets. A cash-out refinance can allow you to convert some of that equity into cash.

People use home equity for many reasons:

- Home improvements
- Major expenses
- Education
- Debt consolidation
- Investment or business purposes
- Financial reserves

But equity isn't free money. You're converting part of the ownership you have in your home back into debt.

ADVOCATE TIP

Before taking equity out of your home, know what the money is going to accomplish and what it will cost you.

8. Using Home Equity to Pay Off Other Debt

This one deserves a careful conversation.

Suppose you have credit-card balances carrying very high interest rates. Replacing that debt with lower-cost mortgage debt may significantly reduce your monthly obligations and interest rate.

But we've also changed the nature of the debt. Credit-card debt that may have been paid off over several years could now be incorporated into a mortgage lasting much longer - and your home is securing it.

And if the credit cards are paid off only to be run up again, we've made the situation worse, not better.

THE REAL GOAL

Debt consolidation works best when it's part of a financial plan - not simply a payment reduction.

This is also where looking beyond the mortgage rate really matters. A refinance can sometimes make sense because the household's total required monthly financial obligations drop substantially, even if the new mortgage rate itself isn't lower.

9. Refinance or Home Equity Line?

If your goal is simply to access some of your equity, replacing your entire first mortgage may not be the only option.

A home equity line of credit or second mortgage may allow you to leave an attractive first-mortgage rate untouched.

That's particularly important if you already have a very low rate. It may make little sense to replace an entire low-rate first mortgage with a higher-rate loan just because you need access to a relatively small amount of equity.

On the other hand, second-lien financing has its own rates, terms and risks.

COMPARE THE WHOLE PICTURE

Not just the rate on one piece of it.

10. “No-Closing-Cost” Doesn't Mean No Cost

You've probably seen advertisements for “no-closing-cost refinancing.”

That doesn't necessarily mean the costs disappeared. They may be covered through a higher interest rate, a lender credit, or incorporated into the financing in some other way.

That can sometimes be a perfectly reasonable strategy. But I want you to understand what you're exchanging.

KNOW WHERE THE COST IS

There is usually a cost somewhere. My job is to show you where it is.

11. Your Home's Value Matters

Refinancing isn't based only on your credit and income. The value of the home and the amount you owe determine your loan-to-value, or LTV.

- Available loan programs
- Interest rate
- Mortgage insurance
- Cash-out options
- Appraisal requirements

Your home's value may have changed considerably since you purchased it. We can start with a reasonable estimate and determine whether a formal appraisal is likely to be required.

12. Your Credit and Financial Picture Still Matter

Even though you already own the home, refinancing is a new mortgage transaction.

The lender will generally evaluate many of the same things considered when you originally purchased:

- Credit
- Income
- Employment
- Assets
- Debts
- Property
- Insurance

Your circumstances may have improved since you bought the home. Or they may have changed in ways we need to work through. Either way, we'll know more once we look at the complete picture.

13. What If Rates Drop After You Refinance?

Nobody consistently picks the absolute bottom of an interest-rate market.

Not me. Not the person on television. Not the person on social media who tells you they can. 😊

“Does refinancing make sense at the rate available today?”

If it does, we make the decision based on today's numbers. If rates improve substantially later, we can always evaluate the situation again.

I watch the market for opportunities, but I don't believe in making financial decisions based on trying to perfectly predict what rates will do next.

14. Sometimes the Best Refinance Is No Refinance

After we run the numbers, I may tell you: “I wouldn't refinance this loan.”

- Maybe your existing rate is too good.
- Maybe the savings aren't enough.
- Maybe you're planning to move.
- Maybe the closing costs take too long to recover.
- Maybe you can accomplish your goal without changing the mortgage.

THE ADVOCATE DIFFERENCE

A conversation that results in doing nothing can still be a very good financial conversation.

Your Refinance Checklist

Before We Talk

- ☐ Find my most recent mortgage statement
- ☐ Know approximately how long I plan to keep the home
- ☐ Think about why I'm considering refinancing
- ☐ Estimate my home's current value
- ☐ Know my current interest rate
- ☐ Know approximately how many years remain on my loan
- ☐ Identify any mortgage insurance
- ☐ Make a list of other debts if debt consolidation is a goal

Questions We'll Answer

- ☐ What am I trying to accomplish?
- ☐ What will the new loan cost?
- ☐ How much will my mortgage payment change?
- ☐ How much will my total required monthly financial obligations change?
- ☐ What is my break-even point?
- ☐ Am I extending or shortening my payoff timeline?
- ☐ Can I accomplish the same goal without refinancing?
- ☐ Would a HELOC or second mortgage make more sense?
- ☐ How much equity will remain afterward?
- ☐ How does this affect my longer-term financial goals?

Before Moving Forward

- ☐ Review the Loan Estimate
- ☐ Compare the new loan with my existing mortgage
- ☐ Understand all closing costs
- ☐ Understand whether costs are paid, financed or offset by lender credit
- ☐ Confirm the new loan term
- ☐ Confirm the new monthly payment
- ☐ Confirm cash to or from closing
- ☐ Make sure I understand why this refinance benefits me

My Refinance Worksheet

Current Situation	My Information
Estimated home value	\$ _____
Current mortgage balance	\$ _____
Current interest rate	_____ %
Current monthly principal & interest	\$ _____
Current total monthly mortgage payment	\$ _____
Years remaining	_____
Mortgage insurance	\$ _____ / month
My primary goal	_____
Cash needed, if applicable	\$ _____
Other debt I may want to address	\$ _____
Current total required monthly obligations	\$ _____
How long I expect to own the home	_____

The Proposed Refinance

Proposed Loan	My Information
New loan amount	\$ _____
New interest rate	_____ %
New loan term	_____
New principal & interest payment	\$ _____

Estimated total mortgage payment	\$ _____
Estimated refinance costs	\$ _____
Estimated monthly mortgage savings	\$ _____
Estimated total monthly obligation reduction	\$ _____
Estimated break-even	_____ months
Cash received / cash required	\$ _____

What does this refinance accomplish for me?

7 Questions to Ask Before Refinancing

1. What am I actually trying to accomplish?
2. How much will the refinance cost?
3. How long will it take me to recover those costs?
4. How will this change my total monthly financial obligations - not just my mortgage rate?
5. Can I accomplish the same goal without refinancing?
6. If I'm taking cash out, is refinancing my entire mortgage the best way to access it?
7. Will this put me in a better financial position three, five or ten years from now?

One Last Thought

A refinance doesn't have to happen simply because interest rates move. And you don't need to wait for someone to tell you that rates have reached some magical number.

The right time to look at refinancing is when your circumstances and the available financing create an opportunity to improve your situation.

Sometimes that means lowering your payment. Sometimes it means paying the house off sooner. Sometimes it means restructuring debt or accessing equity for something important.

And sometimes the answer is: Keep the mortgage you already have.

I'm perfectly comfortable giving you that answer.

Wondering Whether Refinancing Makes Sense?

SCHEDULE A CONVERSATION

Choose a time that works for you. If you don't see a convenient time, just give me a call or send me a message.

Send me your current mortgage statement and tell me what you're hoping to accomplish.

We'll run the numbers. If refinancing makes sense, I'll explain why. If it doesn't, I'll explain that too.

START MY APPLICATION

Ready to move forward? You can start securely online from the Digital Office.

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To the Closing Table...and Beyond.

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